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US POLICY AND GLOBALIZATION: BEFORE AND AFTER THE GLOBAL FINANCIAL CRISIS

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How has decay of the American Empire affected globalization? Does the apparent fragmentation of older, Bretton Woods era, more universal forms of global governance into more regional forms imply US relative decline? Is the growing power of Russia, India and, above all, China an existential threat to the governance structures that characterize American empire? A long term perspective on these questions suggests that the American Empire remains relatively robust. If we define globalization as an ever deeper global division of labor, and American empire as the political and economic centrality of the US state and economy, then a longer perspective shows strong inner continuities with the Bretton Woods period. Those continuities larger involve continuity of strategic purpose, as well as a strong continuity of tactics. Order exists beneath the superficial chaos on which most contemporary observers focus. Put simply, a unified system of global economic governance has never existed, but that has posed no barrier to US driven globalization of economic activity. Indeed, fragmentation allows the United States to divide and conquer its potential rivals.

US Policy and Globalization: before and after the Global Financial Crisis

How has decay of the American Empire affected globalization? Does the apparent fragmentation of older, Bretton Woods era, more universal forms of global governance into more regional forms imply US relative decline? Is the growing power of Russia, India and, above all, China an existential threat to the governance structures that characterize American empire? The 2008 financial crisis seemed to signal a profound disorder in the American Empire, reinforcing the sense that the BRICs in particular and the developing world in general were breaking free of Bretton Woods governance structures. But we get better answers to these questions from a longer term perspective than one that attends only to recent trends. If we define globalization as an ever deeper global division of labor, and American empire as the political and economic centrality of the US state and economy then a longer perspective shows strong inner continuities with the Bretton Woods period. Those continuities larger involve continuity of purpose, that is to say strategy. But even at the tactical level a strong continuity of methods is visible. Order exists beneath the superficial chaos on which most contemporary observers focus. Put simply, a unified system of global economic governance has never existed, but that has posed no barrier to US driven globalization of economic activity.

All empires face the same basic dilemmas. Historically empires from Rome to China, from the Mongols to the Ottomans, have sought to suppress all potential internal and external military threats to control over their territory. Empires generally emerged and expanded their ambit of control because they possessed social, economic, and organizational resources that were qualitatively and quantitatively superior to potential rivals for control over the same geographic space. Rome's legions possessed social cohesion and construction skills. The Chinese empire, regardless of dynasty, possessed bureaucratic organization and control over the ever-normal granaries that stabilized both grain prices and rural unrest. Imperial efforts at control historically involved expansion to geographic limits. Expansion required ever greater volumes of resources, which necessarily came from the empire's own territory and its vassal states. But as classic arguments about imperial over-extension emphasize, available resources tended to diminish as one moved farther from the imperial core.[1] The only way to overcome this scissors between rising costs of geographic control and falling available resources was to enable or force peripheries to increase their productivity, which would allow the imperial core to harvest increased revenues from those peripheries. The Chinese empire famously achieved this with the first agricultural revolution under the Ming. And the expansion of Roman law, coinage and order also enabled Roman peripheries to prosper relative to Rome. Yet this very prosperity enables peripheries – especially those not under direct imperial control – to challenge the imperial core. This is especially true when empires delegate frontier defense to surrogate and vassal states.[2]

US strategy and tactics emerge from an effort to deal with the persistent dilemma between encouraging peripheries to be prosperous enough to secure the frontier and be worth exploiting on the one hand, and containing peripheries prosperous enough to contest the empire's control on the other hand. Keeping in mind that errors of cognition and action are always possible, and that some administrations have exhibited extreme recklessness, US efforts to resolve this dilemma have shown strategic consistency.

[1] *Robert Gilpin, US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment. Basic Books, 1975.*

[2] *Michael, Mann. The Sources of Social Power, vol. 1, A history of power from the beginning to AD 1760. Cambridge University Press 1986.*

At the strategic level, US policy aims at preventing the emergence of a peer rival. In the nineteenth century this ambition was limited to preempting peer rivals, including the European empires that might emerge in the Western Hemisphere. In the twentieth century, a much stronger, globally oriented United States sought to prevent the unification of Europe under a hostile power, like Germany or the USSR.[3]

Unification of Europe threatened US pre-eminence because it created a potential economic and military rival. In George Kennan's somewhat outdated analysis, US security was only assured if the United States controlled or had access to three – or even better four – of the globe's five major industrial areas: North America, the United Kingdom, Germany and central Europe, the USSR, and Japan.[4] In both twentieth century cases, the specific modalities for containing or subordinating Germany and Russia differed. But the basic problem noted above characterized each effort. Going it alone to contain Germany or Russia might exhaust the United States' own resources. As Robert Luttwak argued with respect to the Roman empire's efforts to contain the barbarians, the logical solution was to subcontract border defense to vassal states.[5] Yet building up Britain and France to contain pre-World War II Germany might enable the former two to retain their own empires and potentially block US economic expansion in Asia and elsewhere. Similarly, building up and unifying post-World War II Western Europe (and Japan) to contain Russia might create an economic rival in Eurasia or East Asia.

Thus the United States combined, in varying ways, a consistent set of tactics to prevent peer rivals from emerging from the peripheries it supported. Some of these tactics were as old as the first empires, like divide and conquer, socializing local elites into US norms and practices through programs like the Fulbright Fellowships, and suborning those immune to socialization. Others were relatively novel, like the sustained effort to create and maintain a technological edge in both economic and military affairs through permanent research and development programs.[6] Still others were prudent, like avoiding, when possible, open warfare with enemies that risked Pyrrhic victories, or worse.[7] And finally, empires being empires, the US needed new ways to extract resources from what now inevitably were vassal states rather than organic territories of the empire. All four features are tightly connected to how globalization has played out the post-World War II environment. The specific institutional forms global governance took changed as the United States confronted a changing series of threats and opportunities.

One of today's myths about the past is that some uniform system of global governance existed in the Bretton Woods era. This was false in both the security and economic spheres. With respect to security, the United States practiced extended deterrence and maintained a robust conventional military presence in Western Europe. Extended deterrence involved a threat of nuclear escalation if Soviet troops advanced into Germany or the European periphery. Yet in Asia, finite deterrence and a selective military presence prevailed.[8] The United States promised nuclear escalation only with respect to Japanese territorial integrity, making a commitment that Japan's geography assured

[3] *Copeland, Dale C. The Origins of Major War. Cornell University Press, 2000.*

[4] *George Kennan, "Where Are We Today?" Lecture at the Naval War College, December 21, 1948, Kennan Papers, Box 17.*

[5] *Edward Luttwak, The Grand Strategy of the Roman Empire: From the First Century AD to the Third. Johns Hopkins University Press, 1979.*

[6] *Linda Weiss, America Inc. Innovation and Enterprise in the National Security State. Cornell University Press, 2014.*

[7] *Edward Luttwak, The Grand Strategy of the Byzantine Empire. Harvard University Press, 2009.*

[8] *James R. Kurth, "The Pacific Basin versus the Atlantic Alliance: two paradigms of international relations." The ANNALS of the American Academy of Political and Social Science (1989): 34–45.*

would most likely never eventuate. Finally, in the true periphery, the United States actively disrupted regional security by supporting preferred parties in Africa's various civil wars.

Similarly, the pre-eminence given to the three Bretton Woods institutions, the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), respectively covering public capital flows, exchange rates, and trade, overstates the degree to which liberal internationalism prevailed the post-war global economy. The European economies were committed to recreating the liberal markets that characterized much of the global economy before World War I – `Globalization 1.0` as it were. But even in Europe, this process of constructing `Globalization 2.0` was a long, drawn out process. While currency convertibility occurred as early as 1960, the removal of barriers to trade integration was a slow process confined largely to manufactured goods. Capital controls persisted well into the 1980s. As with security, a different order characterized Asia. There, Japan and the two big Asian tigers, Taiwan and Korea, practiced a thinly disguised form of mercantilism in pursuit of industrial upgrading. On some accounts, Japanese capital controls persisted into the 1990s, and the United States was unable to prize open the Korean financial system until the 1997 Asian financial crisis.[9] Finally, many developing economies remained outside the GATT, whose remit covered only manufactured goods, and were supplicants to more than participants in the IMF.

During the Bretton Woods era, the United States used separate systems of alliances to divide its vassal states. NATO superficially appeared to unify European military capabilities – a potentially dangerous situation. Yet NATO's military capacity was cordoned off from the emerging European Union, creating an army without a state and a (potential) state without an army. Within NATO, the distribution of capabilities was – and is – such that no European military could operate without US support.[10] Korea's military was similarly locked down until recently. And Japan, by design, had limited offensive military capability.

On the economic front, manufacturing predominated in the Bretton Woods era. US multinational manufacturing firms extracted resources from the global economy through their control over commodity chains inside each national economy. This famously provoked Jean-Jacques Servan Schreiber's famous complaint that the third largest economy in the world might well be US-controlled firms in Europe.[11] Outside of Europe, a different set of US firms was pioneering global production networks in Asia and Mexico. Everywhere, US oil multinationals supplied most economies. This apparent diversity, though, concealed persistent efforts to expand the global division of labor, and to reconfigure global governance institutions in ways that maintained the relative economic superiority of the United States.

Thus, as US manufacturing became progressively less competitive vis-à-vis German and especially Japanese firms, the US state embarked on a two-decade long campaign to transform the US economy away from 'dumb' manufacturing and to expand the global trade regime to include agriculture, cultural goods, and what we now call the information technology sector. Militarily, the defense establishment pursued strategic superiority versus the USSR through 'smart weapons.' Domestically,

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[9] (What's his name at BU, Mathews)

[10] Even Britain's successful campaign against Argentina's seizure of the Falkland Islands in 1982 relied heavily on covert US logistical and intelligence support. Similarly, the European coalition against Gaddafi in Libya in 2011 relied on US logistical support, coordination and covert operations.

[11] Jean-Jacques Servan-Schreiber, The American Challenge, trans. Ronald Steel. Atheneum, 1968.

this meant transforming the already existing R&D infrastructure in the direction of direct support for information and bio-technologies. But firms in this sector could only be profitable if they had protection for their intellectual property rights (IPRs). Thus, internationally, the United States sought to corral as many countries as possible into the new World Trade Organization (WTO). The number of countries participating in trade negotiations increased from 13 in the 1949 Annecy GATT round to 162 in the (as yet unsuccessful) Doha WTO round. In the middle, the 1986 to 1994 Uruguay round, with 102 countries, created the comprehensive WTO agreement. The WTO treaty's Annex 1C contained the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), which in essence exported US patent law to the rest of the world.[12] Likewise, the WTO's agreement on Trade-Related Investment Measures (TRIMs) broadened investor protections for US multinationals.

US pursuit of this new trade regime looked just as fragmented as the current pursuit of the Trans-Atlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP) do today. The United States used pursuit of the North American Free Trade Agreement (NAFTA) to threaten Europe and Japan with the possibility that the United States might go it alone, shutting firms from both areas out of the larger North American market. The United States similarly encouraged formation of the Cairns group of agricultural exporters to both divide developing countries as a group – Cairns included both developed and developing economy agricultural exporters – and to drive a wedge between some developed countries and the EU and Japan. Divide and conquer allowed the United States to centralize governance of non-manufacturing trade into the new WTO.

Consequently, by the 1990s and 2000s, an apparently new system of global governance had emerged. Instead of the World Bank regulating public investment flows, hundreds of Bilateral Investment Treaties (BITs) modeled on the TRIMs regulated foreign direct investment. Instead of IMF surveillance, private banks drove exchange rates for most countries. And the WTO facilitated a vast deepening of the global division of labor, particularly the Pacific basin. There, complicated global value chains spanning a dozen countries became common. Typically, these combined US firms holding some kind of intellectual property (patent, brand, copyright, or trademark), Japanese or Korean firms with massive physical capital investments (e.g. semiconductor fabs), and a range of local and sometimes foreign firms mobilizing thousands of low wage workers in labor-intensive factories in China or Southeast Asia. These US policies helped global trade to grow to 60% of global GDP by 2008, and global FDI flows to increase at a roughly 15% per year rate; inward global FDI stocks are now roughly equal to 35% of global GDP. These levels are considerably higher than the nineteenth century Globalization 1.0, and are the backbone of the complex division of labor noted above.

Yet just as in the prior Bretton Woods era, this new system of global governance allowed the United States to divide potential enemies, extract resources, and maintain a technological edge. The TTIP and TPP, as well as the less remarked upon Trade in Services Agreement (TISA), all manifest these tactics. The investor dispute mechanisms reinforce the existing BITs, fragmenting potential opposition to the continued expansion of American, European and Japanese capital globally. Equally so, the dispute settlement mechanisms enable US firms to sue over intellectual property rights infringements. With developed country tariffs essentially negligible for most manufactured goods, and developing country tariffs well below the levels of the 1970s, the TPP, TTIP and TISA all concentrate on reinforcing intellectual property rights. For example, the TPP harmonizes copyright around the 95 year US norm, provides for a minimum 12

[12] *Susan K. Sell, Private power, public law: the globalization of intellectual property rights. Cambridge University Press, 2003.*

years of patent protection for biologically-based pharmaceuticals, and allows for 'evergreening' of patents.[13] By expanding protection for non-US firms whose profitability rests on their control over IPRs (intellectual property right), the United States builds support for its trade governance positions inside the other countries.

Why focus on IPRs? IPRs are the major source of profits in the global economy today. The Forbes Global 2000 are the 2000 largest financial and non-financial firms globally. From 2006 to 2015 these firms accounted for roughly one-third of all global profits. Within that third, US firms accounted for more than a third of total profits over that decade, despite the brutal recession of 2008–2010. And among US firms, roughly 100 IPR based firms account for a third of total profits. Put differently, 100 US firms captured a bit more than 11% of all global profits during that decade. In pharmaceuticals, semiconductors, and branded beverages US firms captured over 40% of global profits for that sector; in computer hardware, software, and services, US firms captured over 80% of global profits for that sector. IPRs convey a monopoly to their holder, which is why these firms are so profitable. But without a robust system of global institutions and treaties enforcing the legality of those IPRs, profits would disappear.

Those profits enable the United States to cope with the traditional dilemma of empire. The periphery – and potential rivals within that periphery – grows, but US firms harvest the bulk of profits and can then use those profits to maintain control over the most important global value chains. US firms determine the structure of most global value chains. Simultaneously, control over technological development helps assure a margin of superiority over potential military rivals.

We can assess the emerging challenge posed by China in this light. China's successful industrialization rested in part on its willingness to support the global trade and investment regimes the United States sponsored. China's industrialization now appears to be too successful, with massive excess capacity in basic materials and simple consumer goods driving down prices and profits everywhere, to the benefit of IPR-based foreign firms and the few Chinese firms that hold IPRs. This limits China's economic challenge to the United States. China's natural allies against US-centric governance structures are the other countries in the BRIC group. But China's excess capacity drives both Brazil and India if not towards the United States, away from supporting China. Meanwhile China's military challenge aggravates its relations with major economic and military players in its own region, driving those countries towards the United States. This is in part the basis for the TPP, which currently excludes China, but invites China in if it is willing to play by rules largely set by the United States.

Empires persist through caution and incremental innovation. The United States has shown itself willing to transform old institutions and create new ones in its pursuit of an expanding global division of labor dominated mostly, but never exclusively, by US firms. The apparent decay of some old institutions does not signal decay of the empire. Nor does this the contested birthing of new institutions. Indeed, the United States appears stronger in the outside world than within. The very success the United States government has had creating a deeper global economy has also hollowed out the US middle class and led to a profound loss of legitimacy domestically. In particular, one major political party has staked its future on generating a permanent crisis of legitimacy and on trade, immigration, and civil rights policies that will damage relations with a wide range of vassal states. The US empire is in decay, but it is decaying from the inside out, not the outside in.

[13] 'Evergreening' refers to the practice of making a small change in a pharmaceutical formula or other patented item in order to create a new patent and thus extend the patent life of the original innovation.

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